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Recording COVID-19 measures in the national accounts

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Recording COVID-19 measures in the national accounts

Introduction

Canadian governments at all levels have adopted policy initiatives to address the COVID-19 pandemic. The policies are of wide scope and variety. The federal government has summarized its various measures and their estimated costs in a table that is reproduced in section 25 below. That table provides an overview of the federal government measures, which account for the largest government COVID-19-related outlays. The present document also makes reference to actions by provincial governments and the Bank of Canada. However, while the list of measures discussed here includes all the major ones, it is not exhaustive. Some of the provincial measures and a few of the smaller federal ones are omitted. In addition, further policies might still be adopted in future. The cut-off date for measures included in this paper is May 21, 2020.

The policies to deal with the crisis and the effects of the partial economic shutdown will be evident in the national accounts estimates for March and subsequent months, quarters and years. This note identifies the main policy measures announced that are relevant for the measurement and interpretation of the national accounts. It discusses their statistical treatment in the national accounts context.

Canada's system of macroeconomic accounts consists of several fully integrated component parts which are (i) the Income and Expenditure Accounts, (ii) the Financial and Wealth Accounts, (iii) the Government Finance Statistics, (iv) the Balance of International Payments Accounts, (v) the Supply and Use Accounts, (vi) the monthly GDP by Industry Accounts, (vii) the annual GDP by Industry Provincial and Territorial Accounts, (viii) the annual Provincial and Territorial Income and Expenditure Accounts and (ix) the Satellite Accounts. The impact of the COVID-19-related measures is discussed here primarily in relation to first four of these accounts.

The costs of the measures, as estimated by the governments, are included in the text when available. When the quarterly profile of outlays can be approximated, they are expressed at annual rates (multiplied by four) as is normally done in the seasonally adjusted quarterly Income and Expenditure Accounts. This is intended to simplify the analysis of the policies relative to compensation of employees, gross operating surplus, household disposable income, government expenditure and other components of the accounts, which are expressed at annual rates. However, it should be noted that some other component parts of Canada's system of macroeconomic accounts are not expressed at annual rates.

The policy measures are organized loosely in four groups:

- government transfers to households or non-profit institutions serving households (1 to 6);
- payment deferrals for households (7 to 11);
- government subsidies, loans, capital assistance and payment deferrals for businesses (12 to 16); and
- other policy measures (17 to 24).

Many of the measures are transfers from governments to households, non-profit institutions serving households, corporations, other Canadian governments or non-residents. These transfers do not enter the income- and expenditure-based GDP tables, but rather appear in the relevant sector accounts, which are part of the Income and Expenditure Accounts. Transfers have no impact on GDP, in an accounting sense. Many other measures are payment deferrals and these, in most cases, have no effect because the accounts are on an accruals basis. They do, however, have effects in the Financial and Wealth Accounts and Government Financial Statistics where payment deferrals are recognized as trade credits or other short-term lending/borrowing.

Finally, the source information used to compile the national accounts estimates (mainly economic surveys and administrative data) may not always align properly in relation to the effects of all these policy measures, so when the national accounts estimates are compiled, assumptions and adjustments may be necessary at an aggregate level. In particular, the policy impacts for one party to a transaction may need to be estimated based on information from a counterparty. Business accounting standards offer flexibility in how to treat these various programs, so some businesses may report differently than others. This makes it difficult to aggregate correctly. In addition, measures affecting small businesses involve entities that may be too small for the size thresholds adopted for business surveys. The full impact of the policy measures will likely not be known until tax data and public accounts information are available and even then the precise financial impacts of the various policies may not be clear in every instance.

1. Increase to the Canada Child Benefit

Recipients of the Canada Child Benefit (CCB) receive an extra $300 per child for 2019-20, equivalent to approximately $550 more for an average family. The additional benefit will be delivered as part of the scheduled CCB payment in May. It will cost the federal government $7.7 billion at annual rates in the second quarter.

This is a transfer payment to households and will be treated the same way existing CCB payments are treated. Federal government current transfers to households will be increased and federal government disposable income will be reduced in the Income and Expenditure Accounts and the Government Finance Statistics, while current transfers from government and household disposable income will increase by the same amount in the Income and Expenditure Accounts. Government final consumption expenditures and gross domestic product at market prices are not directly affected.

2. Special Goods and Services Tax credit payment

A one-time special payment was made in early April through the Goods and Services Tax credit for low- and modest-income families. The average additional benefit is $358 for single individuals and close to $600 for couples. It cost the federal government $22.1 billion at annual rates in the second quarter.

According to SNA 2008: "… in the SNA, the total amounts due as payable tax credits should be considered as expense and recorded as such at their total amount. In consequence, tax revenue should be recorded without any deduction for payable tax credits." (p. 445)

This is a transfer payment to households and will be treated the same way existing GST credits are treated. Federal government current transfers to households will be increased and federal government disposable income will be reduced in the Income and Expenditure Accounts and the Government Finance Statistics, while current transfers from government and household disposable income will increase by the same amount in the Income and Expenditure Accounts. Government final consumption expenditures and gross domestic product at market prices are not directly affected. Federal GST revenues will also not be directly affected.

3. Canada Emergency Response Benefit (CERB)

Starting April 6, a new taxable benefit of $2,000 every four weeks for up to 16 weeks is available to workers who (i) must stop working due to COVID-19 and do not have access to paid leave or other income support, or (ii) are sick, quarantined, or taking care of someone who is sick with COVID-19, or (iii) must stay home without pay to care for children that are sick or need additional care because of school and daycare closures, or (iv) still have their employment but are not being paid because there is currently not sufficient work and their employer has asked them not to come to work, or (v) are wage earners and self-employed individuals, including contract workers, who would not otherwise be eligible for Employment Insurance. Eligibility criteria were loosened on April 15 to include seasonal workers and people having recently exhausted their Employment Insurance benefits. People receiving the benefit are also allowed to earn up to $1000 a month. The Canada Emergency Response Benefit is accessible online in April. It will cost the federal government an estimated $140 billion at annual rates.

The federal government also announced in mid-April it is working with provincial and territorial governments to provide benefits, referred to as “salary top-ups”, to essential workers earning less than $2500 a month.

The CERB is a new transfer payment to households and will be treated the same way other similar current transfers are treated. Federal government current transfers to households will be increased and government disposable income will be reduced in the Income and Expenditure Accounts and the Government Finance Statistics, while current transfers from government to households and household disposable income will increase by the same amount. Government final consumption expenditures and gross domestic product at market prices are not directly affected. Since the benefit is taxable, federal current transfers received from households and current transfers paid by households to government (income tax) will also rise in the Income and Expenditure Accounts and the Government Finance Statistics. The net increase in household disposable income from the CERB will therefore be less than the gross amount of benefits paid.

4. Enhancing the Reaching Home initiative and women’s shelters

The Reaching Home initiative receives an additional $638 million at annual rates to help homeless people by purchasing beds and physical barriers for social distancing, securing accommodation to reduce overcrowding in shelters and similar initiatives, and women’s shelters and sexual assault centres receive up to $200 million at annual rates to help prevent an outbreak of the virus in their facilities.

This will be treated as transfers from the federal government to non-profit institutions serving households. Services will then be delivered by those institutions to households. Federal government current transfers to non-profit institutions serving households will be increased and government disposable income will be reduced in the Income and Expenditure Accounts and the Government Finance Statistics, while current transfers received from government by non-profit institutions serving households will increase by the same amount. Government final consumption expenditures and gross domestic product at market prices are not directly affected. However, if some of the funds are used for securing accommodation to reduce overcrowding in shelters, these amounts would likely be treated as social transfers in kind, a component of government final consumption expenditure, and would also be part of adjusted household disposable income.

5. Indigenous Community Support Funds

A new $1.2 billion fund (at annual rates) is established for distinctions-based community support to address immediate needs in First Nations, Inuit and Métis Nation communities. In addition, $400 million at annual rates is provided to support a range of federal health measures in relation to the COVID-19 outbreak; $100 million at annual rates is allocated to Nutrition North Canada to increase subsidies so families can afford personal hygiene products and food and $301 million at annual rates is provided for indigenous post-secondary students.

This could be treated as transfers from the federal government to Indigenous governments or to households or to non-profit institutions serving households, depending on who the recipients turn out to be. Federal government current transfers to one or more of these sectors will be increased and government disposable income will be reduced in the Income and Expenditure Accounts and the Government Finance Statistics, while current transfers received from government by one or more of these sectors will increase by the same amount. Government final consumption expenditures and gross domestic product at market prices are not directly affected. Some of these funds will ultimately be passed on to the households in the form of social transfers in kind, a component of government final consumption expenditure, and would then be part of adjusted household disposable income.

6. Benefits for students

Post-secondary students and recent graduates can apply for the Canada Student Emergency Benefit (CSEB) which provides $1,250 a month to eligible students from May through August and $1,750 for students with dependents or with permanent disabilities. The estimated cost is $10.5 billion in each of the second and third quarters, at annual rates. In addition, the non-repayable Canada Student Grants for full and part-time students will be doubled, as well as for students with disabilities and students with dependents, in the coming academic year at an estimated cost of $0.9 billion. Further, the government introduced a number of smaller targeted measures to help students costing $1.6 billion spread over a number of quarters.

The CSEB is a new transfer payment to households and will be treated the same way other similar current transfers are treated. Federal government current transfers to households will be increased and government disposable income will be reduced in the Income and Expenditure Accounts and the Government Finance Statistics, while current transfers from government to households and household disposable income will increase by the same amount. Government final consumption expenditures and gross domestic product at market prices are not directly affected. Since the benefit is taxable, federal current transfers received from households and current transfers paid by households to government (income tax) will also rise in the Income and Expenditure Accounts and the Government Finance Statistics. The net increase in household disposable income from the CSEB will therefore be less than the gross amount of benefits paid.

The doubling of the non-repayable Canada Student Grants will appear in transfers from government to households in a manner similar to the CSEB transfers.

The remaining benefits for students are a variety of smaller transfers to various sectors, and government program expansions. The latter will constitute an increase in government final consumption expenditures and gross domestic product at market prices. Full details are not yet available.

7. Provincial and local government payment deferrals

Provincial and local governments and their Crown enterprises are selectively introducing payment deferrals for electricity, water, property taxes, licenses and other recurring bills for households and businesses. No estimate of the total amount deferred is yet available.

According to SNA 2008: "… in accordance with the accrual principle, the times at which the taxes should be recorded are the times at which the tax liabilities arise. For example, a tax on the sale, transfer or use of output should be recorded when that sale, transfer or use took place, which is not necessarily the same time as when the tax authorities were notified, when a tax demand was issued, when the tax was due to be paid or when the payment was actually made." (p. 145)

In provincial and local government accounts the deferred revenue will be booked as it normally would be and an accounts receivable item will be recorded. In the national accounts such payments are also recorded on an accrual basis. On that basis there will be no impact in the Income and Expenditure Accounts. In the Government Finance Statistics the accounts receivable position of governments will increase. In the Financial and Wealth Accounts the cash position of households and businesses will increase for the duration of the deferrals, while that of the governments concerned will decrease, compared to the case with no such deferrals. Household final consumption expenditure will not be directly affected by these deferral measures.

8. Extra time to file income tax returns and remit sales tax and customs duties

The filing due date for 2019 income tax returns of individuals is deferred until June 1, 2020. In addition, any new income tax balances due, or instalments, can be deferred until August 31, 2020 without incurring interest or penalties. No estimate of the total amount deferred is yet available. The total amount deferred to September 2020 is estimated by the government to be $55 billion.

In addition, Canada Revenue Agency is allowing businesses to defer, until June 30, any GST/HST or Customs duty payments or remittances that became owing on or after March 27 and before June 2020. The amount deferred in this case is estimated by the government to be $30 billion.

According to SNA 2008: "… in accordance with the accrual principle, the times at which the taxes should be recorded are the times at which the tax liabilities arise. For example, a tax on the sale, transfer or use of output should be recorded when that sale, transfer or use took place, which is not necessarily the same time as when the tax authorities were notified, when a tax demand was issued, when the tax was due to be paid or when the payment was actually made. Some flexibility is permitted, however, as regards the time of recording of income taxes deducted at source." (p. 145)

This action will have the effect of lowering federal personal income tax cash revenues in the first quarter and raising them by the same amount in the second quarter. Consequently, household disposable income on a cash basis will be higher in the first quarter and lower in the second by the same amount. In the Income and Expenditure Accounts, income taxes paid by households to governments are recorded on a modified cash basis. Tax obligations accrue during the year in line with compensation of employees, but the adjustments on filing, normally in February-March-April of the following year, are recorded in the accounts on a cash basis. In the Financial and Wealth Accounts and the Government Finance Statistics, deferred filing will give rise to larger-than-usual amounts in the tax receivable account for the first quarter of 2020.

9. Reduced minimum withdrawals for Registered Retirement Income Funds

The required minimum taxable withdrawals from Registered Retirement Income Funds (RRIFs) are reduced by 25% for 2020. The intent is to reduce the requirement for seniors to liquidate RRSP savings at a time when equity market valuations are down substantially and the COVID-19 crisis is constraining income flows. This policy is estimated to shift withdrawals from 2020 to future years, along with $495 million of tax revenues that would normally be paid on those withdrawals in 2020. The uptake on this measure is uncertain since RRIF holders remain free to withdraw funds if they want to. No estimate of the quarterly deferral pattern is yet available.

This policy change has the effect of reducing federal and provincial government income tax revenues in the Income and Expenditure Accounts and the Government Finance Statistics and increasing household disposable income in the Income and Expenditure Accounts, in 2020. This will be offset in 2021 and subsequent years when federal and provincial government revenues will be higher and household disposable incomes lower.

10. Mortgage interest deferrals

The federal government says Canadian banks and mortgage insurers, including the Canada Mortgage and Housing Corporation, have committed to work with their customers on a case-by-case basis to find solutions to help them manage financial hardships caused by COVID-19. Canada Mortgage and Housing Corporation has an insured mortgage purchase program of up to $150 billion and an extension of mortgage bond issuances of up to $60 billion.

To the extent that normal mortgage payments are deferred or loans are re-amortized under this measure, principal payments by households to financial corporations will be lower than they would otherwise be in the second quarter and possibly in the third quarter, and higher in subsequent quarters. The household debt service ratio will reflect the reduced payments of principal; however, interest payments will not show the same decline as they are on an accrual basis. The lending institutions will book the deferred interest paid as interest revenue and will add these amounts to the outstanding loan assets on their balance sheets.

This impact will be reflected in the source data used by national accounts analysts and will require no special action other than the identification of the value of loans in deferral and associated payments. The impact will be seen in the Financial and Wealth Accounts, more specifically in the debt service ratio.

11. Moratorium on the repayment of and increases to Canada Student Loans

Effective March 30, a six-month interest-free moratorium is placed on the repayment of Canada Student Loans for all student loan borrowers. No payment is required and interest will not accrue during this time. This will provide relief of $760 million at annual rates to almost one million Canada Student Loan Program borrowers. In addition, the eligibility requirements of the Canada Student Loan Program are changed in 2020/2021 to allow more students to qualify and for greater amounts.

This will lower interest payments by households to the federal government and interest receipts by the federal government as recorded in the Income and Expenditure Accounts and the Government Finance Statistics. The household debt service ratio will be reduced. It will also lower loan principal repayments and receipts in the financial account of households and governments. Net primary household income and disposable income will be temporarily higher than they would otherwise be. Increased lending under the Canada Student Loan Program will not directly affect the Income and Expenditure Accounts, but will be recorded in the Financial and Wealth Accounts and in the Government Finance Statistics.

12. Canadian Emergency Wage Subsidy (CEWS)

The federal government is providing eligible employers of any size a temporary wage subsidy from March 15 to June 6, called the Canadian Emergency Wage Subsidy (CEWS). The subsidy is equal to 75% of remuneration to a maximum of $58,700 in annual earnings. This means up to $1129 per week is covered, with $847 of that being the subsidy. An estimate of the cost to the government is $292 billion for three months at annual rates.

Employers who are eligible for the CEWS are entitled to receive a 100% refund for certain employer contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan and the Quebec Parental Insurance Plan paid in respect of employees who are on leave with pay.

Businesses are able to benefit quickly from this support by reducing their remittances of income tax withheld on their employees' remuneration. Canada Revenue Agency opened an Internet portal for the subsidy on April 27. The measure is backdated to March 15. Employers benefiting from this measure include Canadian-controlled private corporations of all sizes, as well as non-profit organizations, partnerships, charities and unincorporated businesses with employees. Initially the eligibility criterion was that a business must have had a 30% or greater revenue decrease to qualify. That was subsequently modified. For March, the threshold is now 15%. It is 30% for April and May. Also, some businesses are now permitted to use January and February 2020 as a base instead of 2019. Businesses are permitted to use cash accounting, which helps businesses that sent out invoices in March but have not yet been paid.

Organizations that do not qualify for the CEWS may qualify for the previously announced wage subsidy of 10% of remuneration paid from March 18 to June 20, 2020 at an estimated total cost of $975 million.

According to SNA 2008: "Other taxes or subsidies on production, that is, taxes [or subsidies] payable [receivable] on the land, assets, labour, etc., employed in production are not taxes payable [or subsidies receivable] per unit of output and cannot be deducted from [added back into] the producer's price. They are recorded as being payable out of [received on top of] the value added of the individual producers or sectors concerned." (pp. 143-144, Statistics Canada editing in square brackets)

These payments will be recorded as subsidies on production. They are the reverse analogue of property taxes levied on businesses, which are taxes on production. They will be recorded in the Income and Expenditure Accounts and Government Finance Statistics, and eventually in the Supply and Use tables, as subsidies to corporations and unincorporated businesses (households). The payments will be recorded as transfers in the case of non-profit institutions serving households.

This will appear explicitly in the Income and Expenditure Accounts on the income side as a negative component of taxes less subsidies on production. Compensation of employees will be higher by the same amount, compared to “what they would otherwise be”. No national accounts adjustment will be required here. The subsidies are an incentive to the employer, not the employee, and some employers will not apply for them, so it would not be appropriate to treat the payments as transfers to households. They will be included in the calculation of gross operating surplus and mixed income since subsidies are recorded in corporate revenue (or they may be netted against expenses by some businesses). The employee’s wages will be recorded as they normally are and will be included in the estimates from SEPH and other compensation data sources. On a quarter-to-quarter basis, compensation of employees will probably decrease despite the subsidy since not all employers will use the CEWS for all employees. The CEWS has no accounting impact on the expenditure side.

The government is transferring these funds to recipients immediately by allowing them to take their wage subsidy claims from income tax withholdings on behalf of their employees, withholdings that would otherwise be transmitted to Canada Revenue Agency. Separate accounting and auditing for wage subsidy claims will be done by the government later.

13. Canada Emergency Commercial Rent Assistance (CECRA)

The Canada Emergency Commercial Rent Assistance (CECRA) program for small businesses provides forgivable loans to commercial property owners to cover 50% of monthly rent payments in April, May and June. The tenants are expected to pay 25% and the property owners are expected to absorb the remaining 25%. The loans will be forgiven if the property owner agrees to reduce the small business tenants’ rent by at least 75% for the three corresponding months under a rent forgiveness agreement, which will include a pledge not to evict the tenant while the agreement is in place. The loans are forgiven if the property owner fulfills the agreement. The program will be retroactive to April.

Eligible businesses must be paying less than $50,000 per month in rent and must have either ceased operations temporarily or seen at least a 70% decrease in revenues. Canada Mortgage and Housing Corporation will deliver the program.

The program is provided in partnership with the provincial and territorial governments, which have jurisdiction for rents, and they will cover up to 25% of costs. Some uncertainty remained at time of writing as to the exact parameters of this measure.

The loans are provided to the commercial property owners. Most applicants will presumably seek to fulfill the forgiveness conditions. The forgiven amounts could be treated as subsidies on products in the Income and Expenditure Accounts, the Government Finance Statistics and the Supply and Use Accounts. Federal, provincial and territorial governments will record higher transfers to corporations and unincorporated businesses and lower disposable income. Corporations and unincorporated businesses will record higher revenue due to the subsidies but lower rental revenue. Nominal GDP will be lower and real GDP unaffected. The effect will be to reduce the price of commercial rental accommodation. Alternatively, the forgivable loans could be treated as capital assistance. As a practical matter it will be important to observe how property owners and the governments book these loans in their financial statements.

14. Small business loans – Canada Emergency Business Account (CEBA)

The federal government is guaranteeing bank loans of up to $40,000 for small businesses and not-for-profits. The program, called the Canada Emergency Business Account (CEBA), has been implemented by eligible financial institutions in cooperation with Export Development Canada. It is intended “to help cover their operating costs during a period where their revenues have been temporarily reduced, due to the economic impacts of the COVID-19 virus.” Applicants must demonstrate they paid between $20,000 and $1.5 million in total payroll in 2019. The loans are interest-free until the end of 2022. In addition, if the borrowers pay back their loans in full by December 31, 2022, 25% will be forgiven. After 2022 any unpaid balances will be converted to a three-year term at a 5% interest rate. The program launched in the week of April 6. Disbursal of funds began one week later. It is expected that $41.25 billion of loans will be made, excluding the 25% forgiveness amount. The cost to the government is estimated at $13.75 billion, or $55 billion at annual rates if disbursed in a single quarter.

Through a new Business Credit Availability Program (BCAP), Business Development Bank of Canada (BDC) and Export Development Canada (EDC) are providing more than $40 billion in loans and other forms of credit support and enhancement at market rates to businesses with viable business models. BDC and EDC are making co-loans with private sector financial institutions to fill gaps in market access and lever additional lending by private sector institutions where joint participation facilitates private action.

As part of BCAP, EDC is guaranteeing new operating credit and cash flow term loans that financial institutions extend to small and medium-sized enterprises, up to $6.25 million. The banks assume 20% of the risk for these loans. The program cap is $20 billion.

Also as part of BCAP, BDC together with financial institutions is co-lending term loans to small and medium-sized enterprises of up to $6.25 million for their operational cash flow requirements. BDC's portion of this program is up to $5 million per loan. Eligible financial institutions are underwriting and managing the loans. The program cap is $20 billion.

According to International Financial Reporting Standards (IFRS): "International Accounting Standard (IAS) 20 requires the benefit of government loans advanced either interest free or at a below-market rate of interest to be treated as a government grant, measured as the difference between the initial carrying amount of the loan determined in accordance with IAS 39 or IFRS 9 and the proceeds received." Also "A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognized in profit or loss of the period in which it becomes receivable." This indicates that if businesses follow the standard, they will report the loan forgiveness amounts in revenue, as government transfers, when they are received.

When businesses receive the funds, the full amount will be recorded as loans. These will appear as additions to federal government assets and to corporate and unincorporated business liabilities in the Financial and Wealth Accounts.

Zero-interest loans are concessionary and imply an implicit transfer from government to business. Estimating the size of this transfer is difficult. How best to reflect this transfer in the national accounts remains under discussion. The transfer is potentially large in this case, but estimating its size is difficult. Whether to reflect this transfer in the national accounts is an open question.

Borrowers repaying their loans by December 31, 2022 will pay only 75% of the original amounts. In the national accounts, the federal government sector will record the remaining 25% as a capital transfer to corporations or unincorporated businesses. These loans will then be extinguished in the Financial and Wealth Accounts. Borrowers not repaying by the deadline will not receive the forgiveness benefit and will start paying 5% annual interest to the federal government.

The banks administering these loans will receive fees from the federal government, although few details are available. These fees will be government current expenditures on financial services and will be included in GDP.

15. Lower interest rates and credit facilities for businesses

The Bank of Canada lowered its policy interest rate from 1.75% to 1.25% on March 4, to 0.75% on March 13 and to 0.25% on March 27. It announced it will establish the Commercial Paper Purchase Program (CPPP), aiming to alleviate strains in short-term finance markets, and begin acquiring Government of Canada securities in the secondary market. Purchases began with a minimum of $5 billion per week, across the yield curve. The Bank also announced a broadened range of collateral for its term repo and stated it will support the Canadian Mortgage Bond (CMB) market facility. The stated objective is to "immediately support the financial system so it keeps on providing credit, and, over the longer term, to lay the foundation for the economy's return to normalcy." The Bank is also purchasing up to $50 billion of provincial government bonds and $10 billion of investment-grade corporate bonds. In some cases provinces are having difficulty selling new bond issues in present circumstances.

In addition, the federal government announced a Large Employer Emergency Financing Facility (LEEFF) to help distressed corporations with at least $300 million in annual revenue. The minimum loan size is $60 million and there is no explicit maximum. The loans are at 5% interest per year, rising to 8% in the second year and increasing a further 2% a year thereafter. Companies borrowing under this facility will be required to provide the government with the option to purchase common shares through a stock warrant equal to 15% of the principal amount of the loan, to limit executive salaries to $1 million a year and to not pay dividends or buy back stock. These loans may be especially significant for corporations in the air transportation, oil and gas and retail industries.

The impact of these measures should be reflected automatically in the source data used in compiling the national accounts and will require no special action. The impact will be seen in the Financial and Wealth Accounts.

16. Federal actions in support of industries

Airport ground lease rents are waived from March 2020 through to December 2020 for the 21 airport authorities that pay rent to the federal government. Comparable treatment is provided as well for Ports Toronto, which operates Billy Bishop Toronto City Airport and pays a charge to the federal government. Up to $17.3 million is provided to the governments of Yukon, Northwest Territories and Nunavut to support critical air services to northern and remote communities, in partnership with the territorial governments, to ensure the continued supply of essential goods and services to remote and fly-in communities.

To help farmers, fish harvesters and food production and processing employers, $50 million is allocated to help accommodate the 14-day isolation period for temporary foreign workers. In addition, $5 billion of new loans flowing through the Farm Credit Corporation are made available in support to agricultural producers, agribusinesses and food processors. An allocation of $77 million is made to help slaughterhouses and other food processors outfit employees and adapt plants for physical distancing. To help cattle and hog producers who are raising more animals than can currently be processed because of COVID-19 and as a result are seeing their costs increase because they are keeping these animals longer, $125 million of assistance is provided. Finally, $50 million is allocated for a food surplus purchasing program that will see the government buy large quantities of surplus products and redistribute them to areas where food insecurity is an issue, to avoid throwing out food and to allow the producers to be compensated.

Tourism operators in national parks, historic sites and marine conservation areas are permitted to defer payments on commercial leases and licenses of occupation without interest until September 1, 2020.

In Alberta, British Columbia and Saskatchewan $1.72 billion will be spent to clean up orphan and inactive oil and gas wells and a $750 million Emission Reduction Fund is established for pollution reduction work with a focus on methane. These initiatives will take the form of “primarily repayable contributions to firms” in the conventional and offshore oil and gas industry. Of this amount, $75 million is allocated to the offshore sector. In addition, BDC and EDC will expand credit support for at-risk medium-sized energy companies so they can maintain operations and keep their employees.

Finally, an allocation of $500 million is provided for a COVID-19 Emergency Support Fund for cultural, heritage and sport organizations in support of the financial needs of affected organizations so they can continue to support artists and athletes. In addition, the Canadian Radio-television and Telecommunications Commission will waive Part I license fees by broadcasters for the 2020/2021 fiscal year and the government will provide offsetting funds to the commission.

Some of these various actions will take the form of subsidies to non-financial corporations and unincorporated businesses, while others will be price reductions, loans or payment deferrals.

17. Wage top-ups for front-line workers

On May 7, the Prime Minister announced an agreement with the provincial governments to provide wage top-ups to front-line workers such as those in the health care sector. A $4 billion fund is established with $3 billion from the federal government and $1 billion from the provinces. The criteria and operational arrangements will be established by each individual province. No details were announced.

It is not possible, at this stage, to determine how these wage top-ups will be reflected in the national accounts. This will depend on arrangements that have not yet been decided.

18. Closure of schools, universities and some public administration

Schools and universities were closed after the March break as were government offices. The reopening dates are undecided and may vary by province and territory. Teachers are engaged in professional development activities and some are making efforts to provide online learning programs for their students. In Ontario, for example, multiple substitute education delivery systems are being implemented including online courses and mail and email courses, supported by the home delivery of training materials. Similarly, public administration at the federal, provincial, territorial and local levels is greatly reduced and employees have been requested to work from home. Both teachers and public servants are still being paid in full, although in Alberta educational support staff were laid off on March 28 and K-12 funding was reduced by $512 million at annual rates while students transition to online learning. Those employees were advised to apply for Employment Insurance. For these employees output and compensation of employees will be zero and the EI benefits will be transfers to households.

Since it appears the compensation of most of the affected employees is not being reduced and since many have related work they have been asked to do at home, this will probably be treated as a continuation of normal education and public administration accounting. Nominal compensation is simply the wages and salaries paid, while the volume of production by teachers and public servants is gauged by actual hours worked, as measured by the Labour Force Survey. This is the longstanding approach for estimating the value and volume of government final expenditure on education and public administration services in expenditure-based GDP and also in the monthly real GDP estimates.

The teachers can stay home in the summer months every year when they are not required to teach, but their output is assumed to continue if their reported actual hours worked do so. In any case, seasonal adjustments smooth out the routine spring-summer-fall changes. Accordingly, output in this service industry and in public administration will be unaffected by the closures except insofar as the employees report reduced actual hours worked on the survey (which they did in March and April). The implicit price indexes of these two service categories will rise.

Some businesses also are paying their employees to stay at home and, where feasible, to continue working. There may be a lot more businesses doing so because of the CEWS. However, this is a different situation. Profits and output will simply be lower. In the public sector there are no market price valuations, so changes in real output must be assessed with cost data.

Finally, an adjustment may be required for accommodation and meals in university residences. Most universities are offering a rebate, to be applied to expenses in the coming year, if a student moved out of residence by March 22. It appears most students went home, with the exception of foreign students. Accordingly the national accounts will record a decrease in residence accommodation toward the end of the first quarter.

19. Other provincial and territorial actions

The New Brunswick government has introduced a one-time $900 income benefit, administered through the Red Cross, to help bridge the time between when people lose their employment or close their business and when they receive their federal benefit. This is estimated to cost $18 million at annual rates. In addition, the government postponed the municipal elections, previously scheduled for May.

The Quebec government has suspended student loan repayments for six months; introduced a program to provide financial help to workers in COVID-19 isolation if they cannot get assistance from another program; introduced a program to help businesses experiencing difficulties due to the COVID-19 crisis; allowed flexibility on investment loans granted previously; postponed the filing dates for Quebec Sales Tax payments from March 31, April 30 and May 31 to June 30; and accelerated processing of requests for tax credits for businesses and tax refunds.

The Alberta government is providing emergency funding to charities, not-for-profits and civil society organizations; has initiated a one-time emergency isolation support payment of $1,146 for people who are self-isolating or are the sole caregiver of someone in self-isolation and have no other source of pay or compensation; will defer electricity and natural gas bills to June 19; is supporting the energy sector by funding the Alberta Energy Regulator industry levy for 6 months at a cost of $452 million at annual rates; and has made a $100 million loan to the Orphan Well Association to bolster immediate reclamation efforts, decommission about 1,000 wells, and start more than 1,000 environmental assessments.

The British Columbia government has established an Emergency Benefit for Workers with a tax-free $1,000 one-time payment to people whose ability to work has been affected by the outbreak and who receive federal Employment Insurance or the new Canada Emergency Response Benefit; increased and expanded the Climate Action Tax Credit in July 2020; introduced a Temporary Rental Supplement Program providing up to $500 a month towards rent for low and moderate income families experiencing financial hardship due to COVID-19; allowed large businesses to defer health tax payments until September 30; cut business school taxes in half; extended tax payment and filing deadlines for the provincial sales tax and excise taxes to September 30; delayed the scheduled April 1 increase in the provincial carbon tax, as well as the new provincial sales tax registration requirements on e-commerce and the implementation of provincial sales tax on sweetened carbonated drinks, to September 30.

The Government of Saskatchewan implemented a self-isolation support program providing $459 per week to a maximum of $900 for individuals not covered by federal support programs. This is estimated to cost the province $40 million at annual rates. The government is also providing researchers in Saskatoon $16 million at annual rates for COVID-19 research projects. Saskatoon is home to an advanced infectious disease research facility. This is on top of the $96 million at annual rates the federal government has committed for the research facility. Saskatchewan estimates deferral of $3 billion at annual rates in Provincial Sales Tax remittances from Saskatchewan businesses.

The Ontario government has announced a temporary increase in the Employer Health Tax exemption to $1 million; a five-month relief period between April 1 and August 31 for Ontario businesses unable to file or remit their provincial taxes (including employer health tax, gas tax, etc.) on time due to COVID-19; a suspension of auditing interactions with most Ontario businesses and representatives for the month of April; the deferral of Workplace Safety and Insurance Board premiums until August 31 for all businesses; doubling the Guaranteed Annual Income System payment for low-income seniors at a cost of $75 million; providing one-time payments to families of $200 per child up to 12 years old and $250 for those with special needs; allocating $52 million to expand access to temporary emergency supports for people in financial need and $148 million to municipalities to support charitable and not-for-profit service organizations; $4/hour pay increases for 350,000 healthcare and other workers dealing with COVID-19; providing six months of interest and principal payment relief to borrowers under the Ontario Student Assistance Program. Also, Ontario Hydro has been instructed by the Ontario government to reduce electricity rates to the off-peak rates around the clock, 24/7.

There is a wide variety of provincial, territorial and local government actions. Most will appear in the Income and Expenditure Accounts and the Government Finance Statistics as part of government final expenditure on goods and services, as reduced or deferred tax revenue, as transfers to households or non-profit institutions serving households or businesses, as reduced interest income received by governments and reduced interest paid by households or non-profit institutions serving households or businesses. The treatment of these diverse and numerous measures will have to be assessed at a later point in time when more details are available.

20. Support for research

The federal government will spend $4 billion at annual rates to fund coronavirus research in Canada, supporting research teams that are focusing on accelerating the development, testing and implementation of measures to deal with the outbreak. An additional $1.1 billion at annual rates will also be provided to enhance research capacity on vaccine and antiviral development and clinical trials, both in and outside Canada. Few details are yet available.

These expenditures are described as 'investments' by the government, but on a national accounts basis they appear to be grants to non-financial corporations and/or transfers to non-profit institutions serving households and/or transfers to universities. They will likely be treated the same way NSERC and SSHRC grants are presently treated. To the extent some of these payments are to agencies conducting research outside Canada they would be treated as transfers to non-residents and would also appear in the Balance of International Payments accounts.

21. Support for other levels of government

The federal government will provide $2 billion at annual rates to provincial and territorial governments and Indigenous leaders and communities for critical health care system needs and mitigation efforts. Few details are yet available. The Bank of Canada is also purchasing provincial government bonds.

The payments to provinces and territories appear to be transfers from the federal government to other levels of government, although it seems some of the funds might also be directed to non-profit institutions serving households. The bond purchases will be added to Bank of Canada assets and to provincial government liabilities in the Financial and Wealth Accounts.

22. International contributions

The federal government is providing $204 million at annual rates to the World Health Organization to support their efforts to contain the COVID-19 outbreak. Few details are yet available.

This will be recorded in the Income and Expenditure Accounts and the Government Finance Statistics as transfers from the federal government to non-residents. The transfers will also appear in the Balance of International Payments accounts.

23. Other federal government expenditures related to COVID-19

The federal government will spend $200 million at annual rates on border and travel measures and sustained activation of the Health Portfolio Operations Centre and the National Microbiology Laboratory. In addition, $28 million at annual rates will be spent for help in repatriating Canadians stranded abroad. The Public Health Agency receives $200 million at annual rates for its COVID-19 communications and public education efforts. A further $2 billion will be spent through the course of 2020/2021 on personal protective equipment, such as nitrile gloves, surgical masks, N95 respirators, face shields, isolation gowns and coveralls, and other medical supplies and equipment to support federal requirements. These will be made available to help address the anticipated demands on local, provincial and territorial governments and health workers. The defense department is putting an unspecified number of reservists on the full-time payroll to be ready to mobilize if help is needed in remote Indigenous and northern communities.

These appear to be straightforward additions to federal government final consumption expenditure on goods and services in the Income and Expenditure Accounts and the Government Finance Statistics. However, the provision of personal protection equipment to health facilities could also be treated as federal transfers in kind to other levels of government. Either way, some of these funds will ultimately be passed on to households in the form of social transfers in kind, a component of government final consumption expenditure, and would also be part of adjusted household disposable income.

24. Work-Sharing extension

Work-Sharing is an adjustment program designed to help employers and employees avoid layoffs when there is a temporary reduction in the normal level of business activity that is beyond the control of the employer. The measure provides income support to employees eligible for Employment Insurance benefits who work a temporarily reduced work week while their employer's business recovers.

Work-Sharing is a three-party agreement involving employers, employees and Service Canada. Employees on a Work-Sharing agreement must agree to a reduced schedule of work and to share the available work over a specified period of time.

The Government of Canada introduced temporary special measures that extend the maximum duration of Work-Sharing agreements from 38 weeks to 76 weeks across Canada for those businesses affected by the downturn in business due to COVID-19 and specifically for the forestry and steel and aluminum industries. Work-sharing benefits are processed through the Employment Insurance system.

There appears to be no need for special actions in the national accounts estimation process to account for this Work-Sharing extension. The additional transfers from government to households will be recorded the same way existing Employment Insurance benefits are recorded.

25. Government of Canada COVID-19 Economic Response Plan – Overview

Table 1
Impact of federal government COVID-19 measures in fiscal year 2020/2021

	Impact[1]	Implementation
	millions of dollars	...
Protecting health and safety, total	**4,399**	**...**
Immediate Public Health Response (of which, $25 million for PHAC in 2019/2020)	50	Immediately
COVID-19 Response Fund (of which, $500 million for provinces and territories in 2019/2020)	1,025	Immediately
Funding for personal protective equipment and supplies (of which, $200 million in 2019/2020)	2,000	Effective March 31, 2020
Health and social support for northern communities (critical priorities, air carriers, food subsidy enhancement)	115	May
Support for international partners (from existing resources)	110	Immediately
COVID-19 medical research and vaccine development (over two years)	1,100	Shortly
Direct support measures, total	**145,700**	**...**
Support for individuals		
Canada Emergency Response Benefit (CERB)[2]	35,000	Started April 6, 2020
Canada Emergency Wage Subsidy (CEWS)[2]	73,000	Early May (online applications opened April 27, 2020)
Temporary business wage subsidy	975	Immediately
Enhanced GST credit	5,515	Started April 9, 2020
Enhanced Canada Child Benefit	1,927	May
Canada student loan payments	190	Effective March 30, 2020
Lower RRIF minimum withdrawal	495	Immediately
Waiving the Employment Insurance waiting period for people in imposed quarantine	5	Immediately
Support for students and recent graduates (over two years)[4]		
Youth employment and skills development programs	728	Varies
Canada student loans (over two years)	1,944	...
Canada Student Emergency Benefit	5,250	...
Canada Student Service Grant	912	...
Support for vulnerable groups		
Support for indigenous communities	305	Started April 14, 2020
Support for the homeless (through Reaching Home)	158	April
Support for women's shelters and sexual assault centres, including in Indigenous communities	50	April
Support for seniors (of which, $9 million in 2019/2020), children and youth	17	Varies
Support for food banks and local food organizations (of which, $25 million in 2019/2020)	100	April
Support for charities and non-profits serving vulnerable people	350	Shortly
Businesses		
Canada Emergency Business Account (CEBA) - 25% incentive[4]	13,750	Started April 9, 2020
Alternative credit support for businesses unable to access other emergency measures (RDE, Community Futures, Futurpreneur Canada, Industrial Research Assistance Program)	1,232	Shortly
Support for indigenous businesses and aboriginal financial institutions	307	Shortly
Support for northern businesses (from existing resources)	15	Immediately
Enhancements to the Work-Sharing Program	12	Immediately
Sector-specific support		
Support for the air transportation sector (of which, $33.1 million in 2019/2020)	331	Immediately
Support for food inspection services	20	Shortly
Support for food system firms that hire temporary foreign workers	50	April
Support for cultural, heritage and sport organizations	500	May
Support for the broadcasting industry	30	Immediately
Emissions reduction fund for the oil and gas sector (over two years)	750	Q3 2020
Cleaning up former oil and gas wells	1,720	May
Support for fish and seafood processors	63	Shortly
Tax liquidity support		
CRA/CBSA liquidity support to businesses and individuals, total	**85,000**	**...**
Income tax payment deferral until September	55,000	Immediately
Sales tax remittance and customs duty payments deferral	30,000	Immediately
Protecting health and safety, direct support measures and CRA/CBSA liquidity support, total	**235,099**	**...**

Table 1
Impact of federal government COVID-19 measures in fiscal year 2020/2021

	Impact[1]	Implementation
	millions of dollars	...
	percent	...
As percentage of gross domestic product	**10.2**	**...**
	millions of dollars	...
Other liquidity support and capital relief		
Business Credit Availability Program (BCAP) (through BDC and EDC), other credit and liquidity support, total	**286,450**	**...**
Small and Medium-sized Enterprise Loan and Guarantee program	40,000	Immediately
Canada Emergency Business Account (CEBA) (not including 25% incentive)	41,250	Started April 9, 2020
Credit and liquidity support for the agricultural sector	5,200	Immediately
Credit and liquidity support through the Bank of Canada, CMHC and commercial lenders[3]	200,000	Immediately
Capital relief (OSFI domestic stability buffer)	**300,000**	**...**
BCAP, other liquidity support and capital relief, total	**586,450**	**...**

... not applicable
1. Government of Canada, Finance Canada, released April 22, 2020. Differs from fiscal cost on an accrual basis, which is lower. Numbers are rounded.
2. Estimates. Breakdown between CERB and CEWS may vary based on observed take-up.
3. Figures represent lower bound estimates based upon announced credit and liquidity support to date.
4. Preliminary estimates. Actual impact/costs may vary based on observed take-up.

Source: Government of Canada, Finance Canada, 2020.